MEETING SUMMARY NOTES

Finance Work Group

March 19, 2003
3:30 p.m., Mayor's Conference Room, County-City Bldg.

MEMBERS: Present - Brad Korell, Lowell Berg, Ron Ecklund, Keith Brown, Mark Hesser, Connie Jensen, Dan Marvin, Kent Seacrest, Tim Thietje, Terry Werner, Larry Zink, Allan Abbott (nonvoting)
Absent - Jim Budde, Bob Hampton, Polly McMullen, Richard Meginnis, Tom Schleich, Roger Severin, Otis Young

OTHERS: Kent Morgan, Steve Hubka, Hallie Salem, Margaret Blatchford, Steve Henrichsen, Randy Hoskins, Lauren Wismer, Margaret Remmenga, Roger Figard, Michele Abendroth

AGENDA ITEMS DISCUSSION:

1. **Welcome - Brad Korell, Work Group Chair**

Mr. Korell called the meeting to order at 3:33 p.m. and welcomed those present.

2. **Public Comment Period**

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

3. **Future Meetings**

Mr. Korell reiterated the fact that the full committee needs to complete their report to the Mayor by May 8th and asked to add another meeting on April 8th at 3:30 p.m. in Room 113. No members expressed a conflict with this date. The May 7th meeting previously scheduled was canceled. Mr. Korell thanked the work group members for their work thus far.

Mr. Korell reviewed the agenda and stated that the consultants from LES would be at next week's meeting to advise the work group on the sources of funding for streets which were derived by the group.

4. <u>Street Funding Source & Use Projections - Allan Abbott</u>

Mr. Abbott reviewed the handout, entitled *Category 5 (Cost, Geometry Mods., Deferred Projects and Conversions).* He stated that the top of the sheet shows the projects which are scheduled as they need to be built, and when they can be delivered. The bottom of the sheet shows the funding. The Antelope Valley Project shows what needs to be spent in the first six years to get the first aspect of it done. Phase 2 begins the next six years and costs were spread out equally over those six years. The South Beltway Project shows only the City portion of the project, and the federal costs and funds are not shown in the spreadsheet. The East Beltway Project does not start until the next six years. Street Operations and Maintenance shows the percentage growth and is not inflationary. Arterial and Residential Rehabilitation is the resurfacing program. The Committed Projects line shows projects that are underway and payment is in the first year of the project and then goes to zero after that. Remaining Baseline Projects was based on the ability to produce sufficient funds. He stated that the total cost of the program starts out at \$56 million in 2003-04, then jumps to \$88 million in 2005-06, \$71 million in 2006-07, \$76 million in 2007-08, and \$99 million in 2008-09 and noted that those are considerably larger construction programs than we normally do.

Mr. Abbott stated that there are advantages and disadvantages with the construction program. The advantage is that we are ramping up to about an \$80 million program and giving the construction industry some warning that there is going to be a bigger program and they have an opportunity to grow. The disadvantage is that when you get out to years 7, 8, and 9, the program declines, so the construction industry will not be very happy.

Mr. Abbott noted that there are no numbers indicated in the remaining baseline projects because those numbers will be determined in the next 12 years.

Under Funding Source, PB Funds are the special federal funds or enhancement monies. He stated that they have been getting a half million per year. PC Funds is also federal money and is the City share of the federal highway bill. He stated that they assumed that it would stay at the same level of \$4 million. The RTSD money is the Railroad Transportation Safety District money and have gotten about \$1.5 million per year and assumed that would remain the same. The TMT Fund is the Train Mileage Tax, which is the tax the railroads pay for running their trains through Nebraska. Mr. Abbott stated that we have been promised \$8 million from them over the first four years of the program. The SO Fund is the City share of the state gas tax and there is \$17 million in 2003-04 and then it goes to \$15 million the next two years. The WC Fund and WR Fund are the two sources of wheel tax money. IF is impact fees. The State 80% match shows \$2 million for the next six years. The numbers in parentheses are the number of dollars we are short each year of doing the program that is outlined above.

Mr. Abbott stated that want to get together with contractors. Preliminary conversations have indicated that they could handle this. However, if you go with a program of this size, you could be attracting construction companies other than local contractors.

Mr. Zink questioned if the projects that were recommended for deferral by the Cost Savings and Efficiency Work Group were used in these figures. Mr. Abbott stated that any recommendations made by the Cost Savings and Efficiency Work Group were considered as adopted for the purposes of these estimates.

Mr. Brown questioned if this was new construction or if it included “catch-up” projects. Mr. Abbott stated that a large part in the first two or three years is “catch-up”.

Mr. Zink asked about the priority of existing City streets. Mr. Abbott stated that we are on a 25-30 year cycle for arterials and a 40 year cycle for residential. He added that Karl Fredricksen is working on a system to establish a program and ranking criteria.

6. <u>“Road Gap” - Dan Marvin</u>

Mr. Marvin reviewed the handout titled *Road Gap*. He noted that his calculations are similar to what City staff has calculated. His calculations include an increase in the wheel tax of 3% per year and a 2 cent occupation tax on fuel. The total expenditures to build out is $700 million. Arterial rehabilitation and maintenance will cost $177 million over 12 years. That means we need $523 million. If you go through a bonding exercise and rate increase, you raise about $500 million, so there is a $26 million gap.

Mr. Marvin stated that he figured we could bond SO money, the wheel tax money and the gas tax money. In total, there is $10 million available for debt service. He noted that there is a $7 million revenue stream that could be bonded, and not $10 million.

Mr. Marvin then distributed a sheet showing the history of wheel taxes and gas taxes. He noted that he believes that the City raised rates rapidly which caused people to get upset and added that he believes you could raise it at 3%. On the gas tax revenue, he estimates that there are a total of 200,000 vehicles in Lincoln using an average fuel consumption of 600 gallons per year per vehicle with a total consumption of 120 million gallons per year. If you add a 2 cent per gallon per year, that would generate $2.4 million per year. Mr. Abbott noted that the calculations were similar to his.

Mr. Marvin summarized that his calculations do not raise enough money in six years to do what Mr. Abbott wants to do, over the 12 year period, we can come pretty close.

Mr. Hesser stated that we have been on a tight scope of work and the one thing that the work group was told is that we had to work with was the Mayor’s scope of impact fees.

Mr. Brown stated that his concern is contingency plan in what happens in raising taxes on a local basis and the tax impact we may have on a state and federal basis. He also noted that water and sewer operate on their own revenue stream based on rates, which can be adjusted for any capital needs the City may have in the future.

Mr. Wismer stated that revenue bonds are not something the City can issue for streets. They can issue general obligation bonds or highway allocation bonds, which can be supported by other sources of revenue. It allows the City to levy a tax necessary to make up for any deficiency.

Mr. Seacrest questioned if you could do a revenue bond on wheel tax or SO. Mr. Wismer replied that wheel tax depends on the authorized purposes and recalled that Joel Pedersen had said that retiring indebtedness is a permissible use for wheel tax money. Mr. Wismer also stated that the City can issue general obligation bonds or highway allocation bonds. The difference is primarily that GO bonds require a vote of the electorate while highway allocation bonds can be approved by the City Council and Mayor. Also, highway allocation bonds require a pledge of the highway allocation funds that come from the state of Nebraska. In either case, they are ultimately general obligations of the City of Lincoln.

5. Impact Fee Revenue Projections - Larry Zink

Mr. Zink questioned what would happen if we continued to increase impact fees. Mr. Henrichsen stated we could not raise each category proportionately, because on arterial streets, at some point you would reach a maximum that you could charge. So initially the arterial street fee goes up until you hit that maximum, and after that, most of the increases came forward as water and wastewater. In summary, if impact fees were increased from $4500 in 2007-08 to $7500 by 2014-15, you could raise an additional $18 million.

Mr. Zink stated that we are looking to address the question of people's willingness to support overall increases in fees and taxes. He believes that it is enhanced to the extent that the development community is stepping up and carrying more of that load, which he believes is the politically expedient thing to do.

7. Adjusted Gross Income - Ron Ecklund

Mr. Ecklund stated that he believes that there should be a payroll withholding on wages. He reiterated his point that it brings in taxes from outside the City, and it is tax deductible.

8. Special Assessments - Lauren Wismer

Mr. Wismer distributed information on special assessment districts, and stated that there are a lot of similarities between sanitary improvement districts (SIDs) and special assessment districts (SADs). The primary difference is that SIDs have their own governing body, whereas SADs are districts that are permitted by law to be formed within the boundaries of a municipality for a specific purpose, which include street, water, and sewer improvements. All three are provided for by state law and City charter. This allows the city to take an area that is in the City limits, put in the improvements and assess all or part of the costs to the abutting property owners. How much of that gets assessed is generally within the discretion of the City Council, with the exception of intersections, which are always general benefit.

Mr. Wismer noted that under the City charter, the City may create and establish a special assessment revolving fund for the purpose of paying the cost of such special improvements. In addition to that, the City may issue special assessment revolving fund bonds without a vote for the purpose of creating, maintaining and replenishing the special assessment revolving fund of the City. He also pointed out that special assessments are collected at the time the property changes hands.

Mr. Korell asked if we can use special assessments to create money for streets. Mr. Wismer responded that you can, but the caveat is that it needs to be within the City limits. If there is an area that is in need of streets, the City creates a street improvement district and includes the property that it contemplates specially assessing and orders the improvements. The City Council then determines what should be specially assessed. At that time, they can levy the special assessments, and they do not have to assess all of the costs to the abutting property owners. Mr. Korell then asked how that is different from impact fees. Mr. Wismer stated that there is not much difference substantively, except for the time of payment. Impact fees are paid at the time of the building permit, so that is something the developer would need to do. With a special assessment, the developer could ask for a special assessment district to be created that encompasses the limits of that subdivision. The City could create a street improvement district. When the project is done, it can levy the appropriate portion of the special assessments against all of the particular lots in the subdivision. When the lots are sold, the special assessments are collected and used to retire the warrants or funds that have been advanced from the City.

Mr. Thietje stated that his impression is that City has not used this much and asked if that is so. Mr. Figard stated that we have not used them much, but they have been used for smaller projects. The guidelines were based on diverse ownership. He added that historically we have not used them on arterial type improvements because one of the true tests of benefit is that you must have direct access to that facility. Mr. Abbott stated that another problem has been that the people who have been assessed have said that they do not want to pay, and the City Council upholds that.

Mr. Marvin added that you cannot do special assessments and impact fees at the same time, and asked if you can have two systems and choose which one you want to use at the time. Mr. Wismer replied that you could.

Mr. Hesser asked if there is a higher level of City underwriting. Mr. Wismer stated that once the improvements are in, you may still be in a situation where the developer owns all the lot. At that point, the City puts the permanent financing in place and pays off the warrants. So the developer has all these lots, each of which has a certain amount of special assessments levied against it, and when those lots are sold, they will be collected. If they aren't collected, then it is up to the developer to pay the special assessments, which he may not have the funds to do. Then the City has the option of foreclosing its lien on the special assessments. The City is also obligated to levy general taxes.

Mr. Thietje stated it is a widely held idea in this community that when using SADs, contractors will bid 15-20% higher than if private financing is used, and asked why that is. Mr. Figard stated that there is a cost difference in unit price bid on contractors on City contracts vs. private development contracts. He added that he does not think our contractors bid our assessment district contracts any higher or differently than they do our major street widening. But when working with the City, there are contract requirements, time lag in payments, rules to be followed, best bids that they do not necessarily have to follow when working with the developers. He noted that there is a perception and a reality that assessment district overall costs are higher than other projects, because there is a lot more administration. He reminded the group of the SIDs discussion from the Omaha presenters, who stated that it can be as much as 35-40% higher.

Mr. Korell then drew the group's attention to the handout from Karen Klein of the City of Omaha Annexation Department regarding SIDs and asked the group to review the information at their convenience.

9. <u>SID Open Discussion - Brad Korell</u>

Mr. Korell stated that after last week's discussion, he drew the conclusion that SID financing would be a huge step for Lincoln/Lancaster County to move in that direction. We have not begun to understand that concept or the ramifications of that option. He then asked each of the members to give their thoughts on the subject of SIDs, and specifically asked them if they would recommend the idea, ask for more study, or scrap the idea. He stated that this issue was also looked at twice before and did not go through, and stated that makes him nervous. Mr. Korell noted that this is a straw poll and not an official vote.

Ms. Jensen questioned if there was a 45% increase in the cost of SID financing and asked Mr. Wismer if that is correct. Mr. Wismer stated that SID warrants and bonds carry interest rates that are significantly higher, but could not quantify a number. Mr. Abbott noted the information states that the financing costs add up to 45% of the soft costs of development, not that it is 45% higher. Ms. Jensen then stated that she would vote to recommend it.

Mr. Werner stated that he would vote to scrap it. He noted that he can see some benefits to the contractors, but does not see benefit to City as we do not get the property taxes or sales tax.

Mr. Seacrest stated that in rare, unique situations, it can be an appropriate tool. He also added that he is willing to scrap it as long as we find some way to get a good share of the funding tax deductible. He stated that if we scrap SIDs, he hopes that does not mean we scrap SADs. He does not like the urban form that SIDs create and does not think we are saving enough.

Mr. Ecklund stated that he feels we should scrap SIDs because of the soft costs that go with the administration.

Mr. Thietje question why SIDs were scrapped by the other committees. Mr. Marvin responded by stating that he did not want to sound cynical, but he believes there is an institutional resistance
to SIDs, which is okay. Mr. Thietje commented that to really understand SIDs, you have to have City staff who have worked with SIDs. He also stated that when he asked the presenters from Omaha if they have a gap, they responded that they have a huge gap, and therefore he questioned how it has helped them solve their gap. He concluded by stating that he would lean toward the scrap side.

Mr. Marvin stated that he would vote to study it further. He also noted that he can understand not recommending it because there is not sufficient time and it does not sit inside the City. He also noted that there are limited circumstances where it could be used.

Mr. Zink voted to study it further, although he noted that there is a limited amount of time.

Mr. Berg stated that he would vote to scrap it, as it is not part of our solution, but we should not preclude someone else from studying it further.

Mr. Hesser stated he would also vote to scrap it, but if we want to recommend further study, that would be fine. He also noted that he believes there are places for SIDs out there.

Mr. Abbott stated that his concern is that it takes a separate agreement. He noted that the downside is that it is a problem if the SID is not successful. There is an advantage to the developer because they can borrow money cheaper. He also stated that he is not saying that it should not be studied further.

Mr. Morgan stated that his question is whether or not it is an improvement over what we do today. He also has a concern regarding urban form and that every planner that he has talked to has said to stay away from them. He stated that he believes what this community needs is to settle in on a financing mechanism and make it work and that SIDs have been studied many times and have never survived.

Mr. Korell stated that he is not hearing anyone speaking in favor of recommending SIDs and this issue is off the table. He noted that we could possibly add a statement to the effect that the work group feels there is merit in studying this issue further. He also stated that the work group members absent from today's meeting may want to provide input as well.

Mr. Korell adjourned the meeting at 5:26 p.m.

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